

## INFLATIONARY PRESSURES AND PRODUCTION COSTS: CHALLENGES AND OPPORTUNITIES FOR MANUFACTURING ENTREPRENEURS IN BAYELSA STATE

Jacob Chidinma Sandra

Department of Marketing/Entrepreneurship and Procurement, Faculty of Business Studies and Management Sciences, Federal University Otuoke, Bayelsa State  
Correspondence email address: *Email:jacobsc@fuotuoke.edu.ng*

### Abstract

*The paper examined the challenges and opportunities of inflationary pressures and production costs for manufacturing entrepreneurs in Bayelsa State. Extant literature was reviewed and some of the challenges include: limited access to finance, skills shortages and training needs, competition and market challenges, unfavourable government policies, and epileptic power supply. Also, the opportunities presented to entrepreneurs in Bayelsa State by reason of inflationary pressures and cost of production are: local sourcing of raw materials, diversification of product lines, export market expansion, efficiency improvements and cost reduction, government support programmes, focus on quality and branding, partnerships and collaborations, value addition to agricultural products, etc. The paper concluded that manufacturing entrepreneurs can build resilient and competitive businesses that contribute to economic development and job creation by leveraging the opportunities and addressing the challenges of inflationary pressures and production costs through strategic planning, innovation, partnerships, and skills development. It was therefore recommended among others that manufacturing entrepreneurs in Bayelsa State should form direct partnerships or contracts with local suppliers and carry out training or development programs that enhance the quality and consistency of these locally sourced materials, in order to ensure a win-win situation where local producers prosper and manufacturers receive high-quality inputs.*

**Keywords:** Challenges, Inflationary Pressures, Opportunities, Production Costs.

### Introduction

Wood, agricultural products, oil and gas are among the many natural resources that abound in Bayelsa State, located in the Niger Delta Region of Nigeria. Apparently, the abundance of these natural resources promotes industrialization and expansions beyond limit in the state. However, the profitability and competitiveness of the industrial sector are grossly affected by inflationary pressures and high production costs which seemed to pose major challenges for enterprises in the State. Inflationary pressures, defined as rising costs resulting from supply and demand problems, have a significant effect on the cost structure of manufacturing firms (Geoff, 2011). Ali (2022) claims that these inflationary pressures directly lead to the rising costs of inputs like energy, transportation, and raw materials, which further reduce profit margins. Similar to this, Schwartz (2023) emphasizes that manufacturing production costs are influenced by inflation and unstable economic conditions. These costs include both direct expenses, like raw materials, and indirect costs, such operational overheads.

The complicated environment for local manufacturers is made worse by Bayelsa's lack of infrastructure, restricted access to financing, and skills shortages.

Prices for products and services have generally increased in Bayelsa State due to inflation, which has an immediate impact on consumers and companies alike (National Bureau of Statistics, 2024). The demand for locally produced items is weakened as a result of this price increase as it lowers customers' purchasing power. The inflationary climate makes it harder for manufacturing companies to remain profitable by raising input prices, especially when it comes to purchasing energy and raw materials (Ali, 2022). Global market variables, such as shifting currency rates and commodity prices, further contribute to unpredictability, raising costs and making Bayelsa-based manufacturers less competitive. Small and medium-sized businesses (SMEs) are most impacted by these circumstances as they frequently lack the capacity to absorb these growing expenses or pass them on to customers, leaving them more susceptible to market pressures brought on by inflation (Iqbal *et al.*, 2022).

Inadequate local infrastructure and the dependence on imported inputs exacerbate the high production costs in Bayelsa's manufacturing sector (Morgani *et al.*, 2021). Manufacturers' operating costs are greatly increased by inadequate road networks, unstable public electricity supplies, and restricted access to basic utilities like water, forcing businesses to use expensive alternatives like generators for electricity (Schwartz, 2023). Additionally, many manufacturing processes in Bayelsa State rely on imported raw materials and machinery, making the sector highly vulnerable to fluctuations in exchange rates and import costs. The entire production cost is increased by import reliance and logistical difficulties, further taxing firms with narrow profit margins (Iqbal *et al.*, 2022). Due to a mix of import-related and infrastructure-related issues, local manufacturers find it challenging to compete with imported or other areas' products, which restricts their market reach.

These inflationary pressures and high production costs pose significant challenges for the industrial firms in Bayelsa State. Declining profit margins put many businesses, especially SMEs, at danger of financial instability because they typically have small capital reserves (Iqbal *et al.*, 2022). Furthermore, when high prices prevent it from successfully competing, market share is lost and sales growth is limited. Furthermore, it is more challenging to invest in modern technology and infrastructure, both of which are necessary for innovation and competitiveness, when financial resources are few. Together, these challenges impede the sector's growth, lowering the manufacturing sector's potential to provide employment and boost Bayelsa State's economy as a whole.

While studies have examined inflation's broader economic impact and production costs dynamics in various regions of Nigeria, there is a notable gap in research specifically focusing on how these factors uniquely affect manufacturing firms in Bayelsa State (Apere & Uche, 2023; Akarara & Azebi, 2018; Okon *et al.*, 2023). Given the region's unique economic climate, which is fueled by its reliance on oil resources and its infrastructure issues, a customized analysis of the challenges local manufacturers confront is necessary. This study is therefore required to close that gap by offering a targeted analysis of the particular difficulties faced by Bayelsa State manufacturing entrepreneurs as a result of these economic pressures, thoroughly examining the opportunities and challenges, and

offering practical suggestions to assist the Bayelsa State manufacturing industry. Therefore, the study investigated the challenges and opportunities inflationary pressures posed on production costs which may apparently affect the profitability and competitive rate of manufacturing firms in Bayelsa State.

### **Research Questions**

The research questions included the following:

1. What are the challenges of inflationary pressures and production costs for manufacturing entrepreneurs in Bayelsa State?
2. What are the opportunities of inflationary pressures and production costs for manufacturing entrepreneurs in Bayelsa State?

### **Literature Review**

#### **The Concept of Inflationary Pressure**

Inflationary pressure is the pressure exerted on the economy that increases prices (Suthar, 2024). Inflationary pressure refers to the overall upward pressure on the price level of goods and services in an economy (Alexander *et al.*, 2015). It is distinguished by a consistent, long-term rise in the average price of goods and services. Numerous causes can lead to inflationary pressures, which can have a big impact on firms, consumers, and the economy as a whole. It mostly causes inflation. These pressures result in either an increase in production to meet or exceed customer demand or an increase in pricing due to a shortage of goods. Supply and demand combined with inflationary pressures cause the economy to shift.

Concerns have been voiced about the cost of living, investment prospects, and general economic and social well-being due to the ongoing price increases and the ensuing decline in the real worth of money. These economies have difficult problems from inflation, which is defined as a persistent and notable rise in the general price level (Sriyana, 2022). It is critical to distinguish between brief price swings and real inflation, which calls for uniformity and wide effects on a variety of goods and services (Ellahi, 2017; Ngoo *et al.*, 2021). As it gets harder to keep the national currency a trustworthy store of value and means of exchange, inflationary economies also struggle with the role of their currency (Ndidi, 2013). For policymakers, finding the ideal balance between price stability and economic growth is crucial. While moderate levels of inflation have been argued to be beneficial for job creation (Lewis & Mizen, 2000; Sisay, 2022), unexpected and uncontrollable inflation presents macroeconomic problems.

The Nigeria National Bureau of Statistics on February 15 released the data on the country's inflation rate for January, 2024 (National Bureau of Statistics, 2024). The data reads that inflation picked up to 29.90 per cent, the 13th time in a row that there has been an uptick, bringing it to a 28-year high. It was 28.92 per cent in the previous month; and the drivers of prices in the country have been the same – food and core indices, which rose to 35.41 per cent year-on-year and 23.59 per cent, respectively. The surge in food inflation was linked to the rise in prices of bread, cereals, tubers, oils, fish, meat, and other staples. Higher prices of passenger transport by road and air, medical services, actual and

imputed rentals for housing, pharmaceutical products, and accommodation services, among others were the drivers of the core index.

In terms of the states with the highest general inflation rate, Kogi, Lagos, Rivers, Ondo and Bayelsa recorded 28.6 percent, 27.4 percent, 27.3 percent, 27 percent and 26.9 percent respectively. This is according to a BusinessDay analysis of the latest Consumer Price Index report done by Balogun Folake on 30<sup>th</sup> January, 2024. This report is a clear indication that there is obvious inflationary pressure in Bayelsa State, bringing challenges and opportunities for manufacturing entrepreneurs and others alike.

In January 2024, All Items inflation rate on a Year-on-Year basis was highest in Kogi (35.79%), Oyo (34.58%), Akwa Ibom (33.16%), while Borno (22.57%), Taraba (24.83%) and Benue (26.64%) recorded the slowest rise in Headline inflation on Year-on-Year basis. On a Month-on-Month basis, however, January 2024 recorded the highest increases in Ondo (3.79%), Osun (3.77%), Jigawa (3.58%), while Bayelsa (0.45%), Yobe (1.10%) and Ogun (1.35%) recorded the slowest rise on Month-on-Month inflation.

In January 2024, Food inflation on a Year-on-Year basis was highest in Kogi (44.18%), Kwara (40.87%), and Rivers (40.08%), while Bauchi (28.83%), Adamawa (29.80%) and Kano (30.08%) recorded the slowest rise in Food inflation on Year-on-Year basis. On a Month-on-Month basis, however, January 2024 Food inflation was highest in Ondo (4.69%), Osun (4.59%), and Edo (4.58%), while Bayelsa (0.24%), Yobe (0.97%) and Ogun (1.44%) recorded the slowest rise in Food inflation on Month-on-Month basis.

The above reports on all items inflation and food inflation was given by National Bureau of Statistics, 2024. Again, the reports, though indicated that Bayelsa State falls among States with the lowest all items and food inflations, indicate that Bayelsa State is currently experiencing inflationary pressure, which will also be contributing to high cost of production.

Concluding this, inflationary pressure can stem from various factors such as demand-pull forces, cost-push factors, monetary policies, supply disruptions, and exchange rate fluctuations. Managing inflation requires a combination of monetary, fiscal, supply-side, and price control measures to ensure stable prices and sustainable economic growth.

### **The Concept of Cost of Production**

The expenses incurred by a business during the manufacture, sale, and delivery of goods and services to clients are referred to as the cost of production (James, 2024). All of the costs associated with developing and providing a good or service are referred to as production costs (Schwartz, 2023). These expenses could include rent, raw supplies, labor, equipment, and marketing fees. In a nutshell, it is the sum of all expenses related to producing and promoting a commodity or service. The cost of production is a crucial part of any company's manufacturing or production procedures. It often includes labor expenses as well as the supplies and raw materials that a company requires for manufacturing. Determining whether a company's products are lucrative and cost-effective requires an understanding of how to calculate, report, and control the cost of production. In another definition,

Dave (2022) looked at cost of production as all the costs that a company incurs when offering a service or manufacturing a product. It includes a range of costs, such as material costs, labor charges, factory upkeep, and shipping fees. State and federal taxes levied on a business's manufacturing facilities or processes are also included in production costs. The cost of manufacturing can be influenced by various factors such as currency rates, technology, demand, material costs, tax rates, and interest rates.

Cost of production refers to the total expenses incurred by a business to produce a specific quantity of goods or services within a given period of time (Thushyanthan, 2011). It covers all expense related to the manufacturing process, including labor, raw materials, and overhead. When evaluating their financial health, enterprises should take the cost of manufacturing into account. The corporation may decide to stop producing a product in order to stay within budget if the cost of production continuously exceeds the profits it makes. Similar to this, if the costs associated with offering a specific service get too high, the business may decide to either stop offering it or find a means to reduce prices. The cost of production has two distinct categories, including:

**Direct Costs:** These are the costs a business directly bears when producing a good or service or buying a bulk item to resell are known as direct costs. The accounting department of a corporation keeps track of direct costs at each level of the manufacturing process, which is subsequently added up to determine the overall cost of production for each product. Since direct expenses are frequently changeable, they could change based on a variety of circumstances. For instance, depending on the year, the cost of the oil that industrial equipment use may increase or decrease. Likewise, an increase in the hourly wage of an entry-level worker may result from a change in the state's minimum wage. Items such as labor compensation, commissions, manufacturing supplies, raw materials, etc. are examples of direct costs.

**Indirect Costs:** These are expenses that cannot be immediately linked to a manufactured good are known as indirect costs. It is impossible to include all indirect costs in the cost of producing a certain product. Rather, those expenses are frequently viewed by businesses as overhead for production. Expenses that assist in producing a good or service without having an immediate impact on the manufacturing process are referred to as production overhead. One of the most effective strategies to reduce a company's cost of production is to find ways to detect, report, and limit indirect production overhead costs. Office supplies, building utilities, supervisor or support staff pay, rent, maintenance charges, etc. are a few examples of production overhead costs.

An organization needs a technique to measure the production expenses in order to plan and control them (Schwartz, 2023). It is crucial to ascertain the cost of a project or service before beginning its production or manufacturing. In this manner, you will be aware of the project's cost, which will help you decide whether to take it on or not. Stated differently, knowing your production costs allows you to project your net profit or loss on sales. This influences the retail price you set for the goods and illustrates the most you may set without upsetting your clients or hurting your bottom line.

The complete cost of a manufacturing unit, including all direct and indirect expenditures, must be added together and divided by the total number of units produced to determine the cost of production. Your production expenses are the total amount you obtain after deducting the number of units you make from the total cost of production (a list of the various types is covered in the next section). You can then decide on pricing, manufacturing scheduling, and other matters.

A company can also determine the cost of manufacturing by looking at 'cost per unit,' or the amount of money needed to produce a single item. The firm must first identify its fixed costs, then ascertain its variable costs, ascertain the number of units it produces, and lastly enter its variable cost, fixed cost, and number of units into the formula to find the cost per unit. Add up all of the company's fixed and variable costs, then divide that total by the quantity of units the company produces to get the cost per unit. The formula is given as:

$$\text{Cost Per Unit} = (\text{Total Fixed Costs} + \text{Total Variable Costs}) / \text{Total Units Produced}$$

By calculating the total cost of production, businesses can determine their break-even point (the point at which total revenue equals total costs), set prices that ensure profitability, make decisions about production levels, and identify areas where costs can be reduced to improve efficiency and profitability.

### **Challenges Faced by Manufacturing Entrepreneurs in Bayelsa State**

Manufacturing entrepreneurs in Bayelsa State, like many other regions, face several challenges related to inflationary pressures and the cost of production. These challenges can significantly impact their ability to operate profitably and grow their businesses. From the reports of National Bureau of Statistics (2024) and Balogun (2024), it is obvious manufacturing entrepreneurs in Bayelsa State are facing the following challenges due to inflationary pressures and the cost of production:

- i. **Limited Access to Finance:** It might be difficult for manufacturing entrepreneurs to obtain reasonable funding since banks and other financial organizations frequently provide loans at unreasonably high interest rates. Many business owners in the industrial sector are unable to get the collateral that banks want in order to grant loans, which restricts their capacity to make investments in cutting-edge machinery and technology. The financial load is increased by reliance on unofficial loan sources with outrageous interest rates. As strengthened by Saari (2020), over 70% of SMEs in Nigeria find it difficult to secure loans at fair interest rates, which forces them to turn to unofficial lending sources with outrageous rates. This indicates that access to financing is still a major barrier for SMEs in Nigeria. This is comparable to the majority of what is available in Bayelsa State.
- ii. **Skills Shortages and Training Needs:** One major problem that raises production costs in Nigeria's industrial industry is the lack of trained labor, especially in places like Bayelsa. Manufacturers' adoption of contemporary production processes is hampered by a lack of

technical skills and specialized training. Nigeria's educational system does not sufficiently provide people with the abilities required for industrial labor (Ezekiel & Deebom, 2022), which results in a reliance on expensive employee training programs. Furthermore, in search of greater possibilities, competent individuals frequently relocate to cities or overseas, creating a shortage in the local workforce that further hinders innovation and efficiency.

- iii. **Competition and Market Challenges:** Competition from imported goods, which, because to government subsidies and economies of scale, are frequently of greater quality and less expensive. It is challenging for business owners to grow their clientele due to the small size of the local market and the saturation of some product categories. According to Agu et al. (2022), local producers find it difficult to compete with these imports, particularly in crowded marketplaces where there is a significant demand from consumers for less expensive, foreign items. restricted availability of customer demand, trend, and preference data and market information.
- iv. **Unfavourable Government Policies:** The difficulties imposed by negative government policies, such as various taxation levels and conflicting regulatory frameworks, exacerbate inflationary pressure. Due to high tax demands at the federal, state, and municipal levels of government, industrial enterprises in Bayelsa State are facing severe cost hikes. Businesses who are already struggling with inflation-driven labor and raw material expenses find their cash flow is strained and their profitability is decreased by these tax liabilities. Furthermore, manufacturers find it challenging to maintain consistent pricing strategies or plan efficiently due to the uncertainty created by frequent changes in import and trade restrictions. Unfavorable government policies raise the cost of doing business in Nigeria by imposing onerous tax burdens at several levels of government and causing uncertainty since trade and import laws are constantly changing (Kwara & Lawal, 2024).
- v. **Epileptic Power Supply:** Manufacturers in Bayelsa State are forced to rely significantly on alternate energy sources, mostly diesel or gasoline-powered generators, due to the state's unstable power supply. The cost of manufacturing is further increased by the volatile pricing of these fuels, which often increase sharply during inflationary times. The high costs that manufacturers must pay to maintain their businesses can have a negative effect on product price and profit margins. In addition to raising direct energy costs, an epileptic electrical supply causes frequent equipment failures and manufacturing delays, which lowers output and raises maintenance expenses. The State's total industry development, innovation, and profitability may be hampered by this power supply problem (Agu *et al.*, 2022).

Manufacturing entrepreneurs in Bayelsa State may need to employ tactics like increasing operational effectiveness, looking for alternate raw material sources, lowering energy costs by investing in renewable energy solutions, investigating export markets, and promoting favorable government policies in order to overcome these obstacles. Finding group solutions to shared problems can also be facilitated by cooperation with other companies and trade groups.

## Opportunities for Manufacturing Entrepreneurs in Bayelsa State

While inflationary pressures and rising costs of production pose challenges for manufacturing entrepreneurs in Bayelsa State, there are also opportunities that can be harnessed to create competitive advantages and sustainable growth. Considering the current inflationary pressures and cost of production, as supported by the reports of National Bureau of Statistics (2024) and Balogun (2024), here are some opportunities for manufacturing entrepreneurs in Bayelsa State to consider:

- i. **Local Sourcing of Raw Materials:** There is a chance to look into local sourcing choices because of the increased costs of imported raw materials brought on by inflation and exchange rate variations. Natural resources abound in Bayelsa State, including agriculture, aquaculture, and oil and gas. To ensure a steady and affordable supply of raw materials, entrepreneurs might form alliances with nearby farmers, fishers, and extractive industries. According to studies, local sourcing boosts regional economies and lowers supply chain risks and expenses (Ogunlela & Ogungbile, 2006).
- ii. **Diversification of Product Lines:** To meet the evolving needs of their customers, manufacturers may want to consider expanding their product ranges. Businesses may adapt to shifting customer expectations, enter new industries, and lessen their reliance on a single source of income by using diversification methods (Grant, 2016). This can entail launching new product iterations, expanding the size of packaging, or even breaking into completely untapped product markets with larger profit margins.
- iii. **Export Market Expansion:** Although inflation may have an impact on local markets, Bayelsa State products may present chances in foreign markets. Exporting enables businesses to diversify risk and boost profitability (Love & Roper, 2015). Entrepreneurs might look into exporting their manufactured items, particularly those that have specific features or target foreign niche markets.
- iv. **Efficiency Improvements and Cost Reduction:** Businesses are frequently forced to examine themselves and optimize their operations due to inflationary pressures. Porter (1996) asserts that preserving competitive advantage requires operational efficiency. To cut the total cost of manufacturing, entrepreneurs might concentrate on increasing productivity, cutting waste, and simplifying procedures.
- v. **Government Support Programmes:** Pay attention to government incentives and support initiatives that are meant to encourage domestic production. These might include training initiatives, tax breaks, and subsidies that can lessen some of the inflationary pressures. Numerous government initiatives, like the Bank of Industry (BOI) interventions, have been put in place in Nigeria to assist SMEs by offering chances for capacity-building and reasonably priced financing (Adegbite, 2014).
- vi. **Focus on Quality and Branding:** When the economy is struggling, buyers frequently search for quality and value. By concentrating on creating superior products with effective branding and marketing tactics, manufacturing firms may set themselves apart.

- vii. Partnerships and Collaborations: New chances may arise from working together with other nearby companies, academic organizations, or foreign partners. This might entail partnering to develop novel goods, share resources, or gain access to new markets.
- viii. Value Addition to Agricultural Products: Opportunities for agro-processing enterprises are presented by the State's rich soil. Entrepreneurs might concentrate on making agricultural goods more valuable. This can involve turning these basic ingredients into completed products like medicines, cosmetics, and food items.
- ix. Renewable Energy Solutions: Entrepreneurs have an opportunity to invest in renewable energy solutions due to the growing prices of energy, especially electricity. This comprises energy systems that use biomass, wind, and solar electricity to run manufacturing operations. Adoption of renewable energy may dramatically reduce energy costs and increase industrial sector profitability, according to studies (Zhang *et al.*, 2017). Long-term operational expenses can be decreased by doing this, and it also presents the company as ecologically friendly.
- x. Investment in Technology and Automation: Long-term cost reductions can result from investing in automation and technology, even if there may be initial expenses. It has been demonstrated that automated systems save operating costs while increasing productivity and product quality (Brynjolfsson & McAfee, 2014). Processes that are automated can increase productivity, lower labor expenses, and produce higher-quality goods. The diagram below represents the elements of discussion in the work:

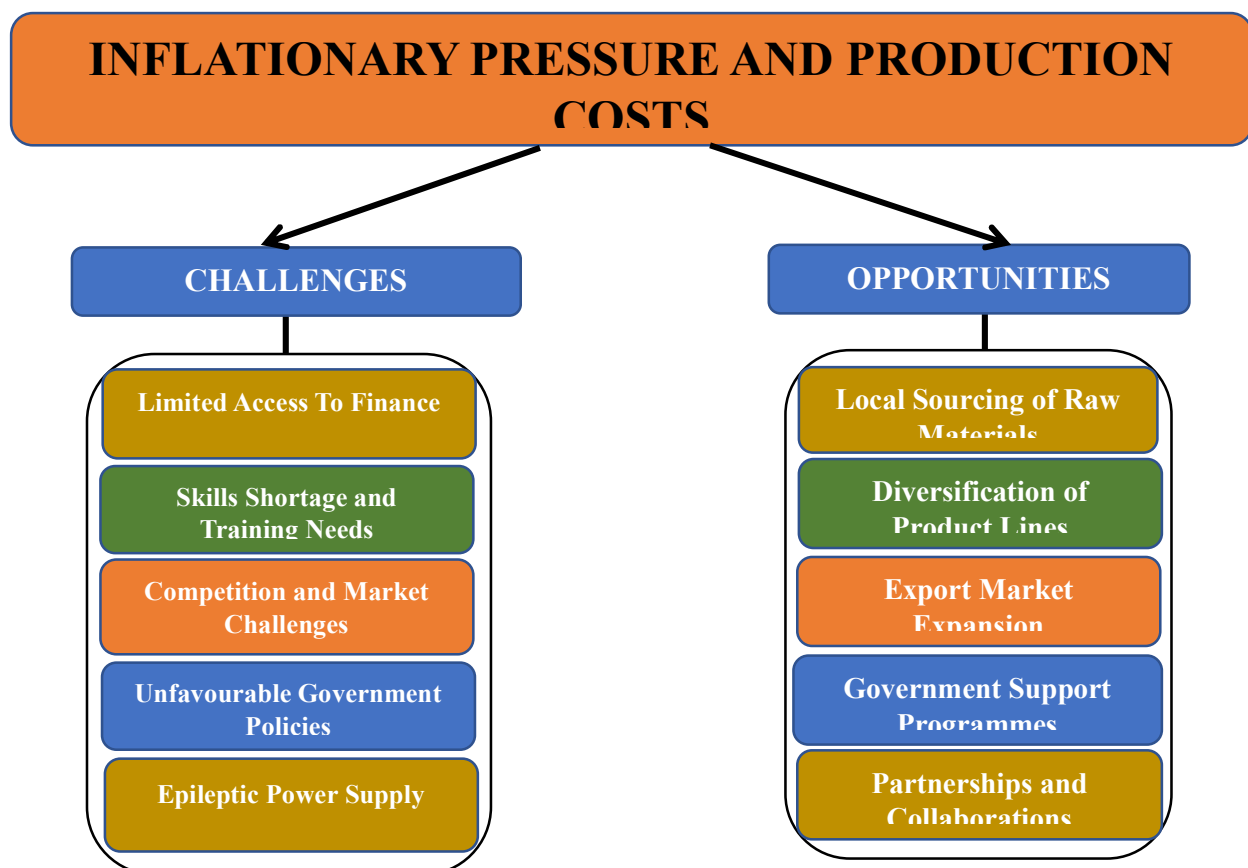


Fig. 1: Inflationary Pressures and Production Costs: Challenges and Opportunities

## Conclusion

The study, through literature review and discussion, has shown the challenges and as well as the opportunities that await manufacturing entrepreneurs amidst inflationary pressure and production cost. Therefore, the study concludes that manufacturing entrepreneurs can build resilient and competitive businesses that contribute to economic development and job creation by leveraging the opportunities and addressing the challenges of inflationary pressures and production costs through strategic planning, innovation, partnerships, and skills development. Hence, it behooves on the government, manufacturing entrepreneurs, and other stakeholders to ensure that these opportunities are harnessed to help them win over high production costs and the pressures exerted by inflation.

## Recommendations

- i. Manufacturing entrepreneurs in Bayelsa State should form direct partnerships or contracts with local suppliers and carry out training or development programs that enhance the quality and consistency of these locally sourced materials, in order to ensure a win-win situation where local producers prosper and manufacturers receive high-quality inputs.
- ii. Manufacturing entrepreneurs in Bayelsa State should take advantage of the State's agricultural wealth by processing raw materials into finished products, such as food items, cosmetics, or pharmaceuticals, as this will not only enhance profitability but also contributes to job creation and economic diversification.
- iii. Manufacturing entrepreneurs in Bayelsa State should form or join cooperative societies that are specifically tailored to the manufacturing sector, thereby allowing entrepreneurs to pool resources and access loans at lower interest rates.
- iv. Manufacturing entrepreneurs in Bayelsa State should focus on market differentiation by improving the quality of their products and strengthening their brand identity, as the enhancement of product quality and emphasizing of local sourcing, sustainability, or cultural uniqueness can help manufacturers create a value proposition that appeals to both local and international customers.

## Policy Implication or Gap Filled

The study has closed the knowledge gap that existed concerning the challenges and opportunities of inflationary pressures and production costs for manufacturing entrepreneurs in Bayelsa State. Within the scope of our literature review using online and offline sources, no previous research has addressed this. The outcome of this study has brought to the knowledge and understanding of entrepreneurs, such as manufacturing entrepreneurs the importance of surmounting the challenges and harnessing the various opportunities of inflationary pressures and production costs for manufacturing entrepreneurs

in Bayelsa State. Hence, this study has also formed a good reference material for researchers and academics in the field of entrepreneurship, management, business studies, marketing, etc.

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